Custobar

Retail insights 2019 - Tatu Kuivalahti

How to master the enormous potential of RFM, the "Key to the Money Machine"

Do you know who your customers are, really?
Do you know how they behave?

HOW OFTEN DO YOU CONSIDER THESE QUESTIONS:

- Which of your customers are spending the most amount of money?
- Which of your customers are the most loyal, the ones that keep coming back placing a third, fourth and fifth order?
- Which of your customers are the newest or most recent?
- Which customers are you about to lose?
- Which customers have you already lost?

HERE'S ANOTHER QUESTION: Are you relevant to your customers in your communications? Are you addressing all of them with the same marketing messages and all at the same time? If so, stop immediately! You are wasting money and alienating your customers. And not having a great conversion, either, are you?

RFM (recency, frequency, monetary value) analysis is a proven marketing method that helps you to segment your customers on the basis of their purchase history. You can uncover buying behaviors by answering these 3 questions:

1. How recently did your customer make a purchase?
2. How often do they make a purchase?
3. How much did your customer spent?

Instead of spending large amounts of money on your CAC (customer acquisition cost), why not bring retention front and center?

RFM analysis is so effective it's been called the "Key to the Money Machine."

Here are some statistics to consider

COMPANIES WITH 24 MONTHS OF ACTIVITY IN ONLINE GET 50% OF THEIR REVENUE FROM RETURNING CLIENTS.

IT IS AT LEAST 6 TIMES MORE COSTLY TO ACQUIRE A NEW CUSTOMER THAN KEEPING THE ONES YOU ALREADY HAVE.

ACCORDING TO THE HARVARD BUSINESS REVIEW, A 5% INCREASE IN CUSTOMER RETENTION CAN INCREASE COMPANY REVENUE BY 25-95%.*

*Gallo, Amy 2014: "The Value of Keeping the Right Customers." Harvard Business Review, Oct 29, 2014.

**In case you are unfamiliar with the terminology, here's a brief definition of RFM and of RFM analysis.**

RFM is a strategy for getting to know your customer and understanding Customer behaviour. Three data points are used for estimating your customer's value: Recency (how recently the customer made a purchase), Frequency (how often do they purchase), and Monetary value (how much do they spend).

RFM analysis is used to evaluate the value of customers to a company based on purchase recency, frequency, and monetary value. The numerical ranking indicates how to predict customer behavior, i.e. which customers are likely to make other purchases in the future and which customers are slipping away.

Here's the beauty of Custobar's RFM matrix: There is no need for complicated data transfers from back end systems nor Excel number-crunching. In fact, you do not even have to know what an RFM analysis is. Custobar's user friendly interface takes you directly to the end results of the analysis. Instead of having to spend heaps of time laboriously collecting and combining data in order to analyze it, you immediately get to the big wins, which will be revealed below. Furthermore, Custobar's RFM matrix collects all your data, both online and offline.

There are hardly any softwares that make an RFM analysis readily available for retailers and ecommerce entrepreneurs, especially in the form of a user-friendly RFM matrix. Custobar's customer data platform (CDP) does just that.
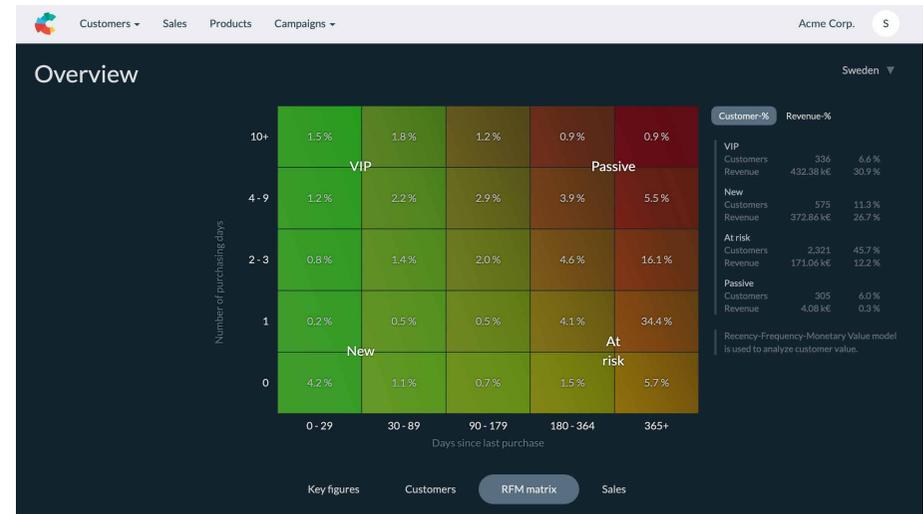
Software innovation is on the rise and we have access to more customer data than ever before. Marketing is undergoing a major paradigm shift and those who cannot utilize and master their data will be left behind. In this union of marketing and technology, Customer Data Platforms (CDPs) are one of the fastest evolving categories. It is also the cornerstone technology category for any company that wants to do relevant marketing.

The constant growth of martech software and platforms makes it difficult for companies to choose the right ones among the literally thousands of available technological solutions or to know, which is the most relevant today and tomorrow. Growth Agent is one of the marketing technology and growth marketing agencies that make it their mission to advise brands and marketers and to guide them in their search for the most relevant technological solutions to better business results. Growth Agent is in strategic partnership with Custobar and finds Custobar's CDP a leading platform in the CDP ecosystem in Europe.

Direct marketing and catalog business + decades of academic and industrial research + the Pareto principle = RFM

The concept of Recency, Frequency, Monetary Value (RFM) dates to an article by Jan Roelf Bult and Tom Wansbeek. "Optimal Selection for Direct Mail" was published in a 1995 issue of Marketing Science. However, the analysis had been in use for decades before that.

RFM analysis was designed to improve campaign ROI for catalog businesses. It increased conversion rates while at the same time cutting back catalog printing and shipping costs. The catalog business has since moved to the internet in the forms of ecommerce and social selling, which makes this traditional and proven method relevant again. Computerization and digitization have given us the tools to effectively perform RFM studies.

The Pareto principle, commonly referred to as the 80-20 rule, is at the core of the RFM model. This famous and well-known principle states that 80% of the results come from 20% of the causes. Or, as translated to the world of retail and ecommerce, 20% of your customers contribute to 80% of your total revenue. This relates to the RFM model as follows: **focusing your efforts on the right or critical segments of your customers will give you a much higher return of investment**.

There has since been numerous academic studies proving RFM's effectiveness when applied to marketing databases.* These and other studies have also proved that RFM reduces marketing costs and increases returns.

*These studies include the following (the list is by no means exhaustive): Blattberg, Robert et al. 2008: Database Marketing. Analyzing and Managing Customers. Libey, Donald R. 1992: On Recency, Frequency and Monetary Value. How to Analyze Customer Performance for Maximum Profit Power. Miglautsch, John R. 2000: "Thoughts on RFM Scoring". The Journal of Database Marketing, Volume 8, Number 1, August, 2000.

Winning big with Custobar's RFM matrix

THESE ARE YOUR WINS:

- You waste no time going through the steps of making an RFM analysis, such as collecting and tracking your data, applying the RFM score formula and calculating the RFM.

- You get a user-friendly interface with great graphics. The visual representation makes it easy to understand your company's RFM analysis.

- Custobar RFM matrix includes weighted RFM scores and demographic data giving you access to stronger and more accurate association rules to understanding customer behaviour and customer value. In practice, you can easily select target groups based on age, sex and/or place of residence, for instance.

- You can create ad agency level, tailored campaigns directly from the interface.

- You get to include data from your ROPO (research online, purchase offline) customers.

- Since you can immediately act on your customer segment analysis, you save a lot of money in targeted, custom-made marketing messages, especially if you focus on retention instead of customer acquisition.

Most RFM analyses are just that, analyses, rankings and calculations and RFM scores to segment your customers based on their buying behavior. Since Custobar's RFM matrix gives you readily access to these scores, you can start taking action immediately. You can become data-driven and make Big Data work for you. After all, doing an RFM analysis and customer segmentation will have no impact on your webstore's results without action based on the insights. You will increase your repurchase rate and conversions only by customized applications of the insights that the data provides!

About Custobar

Custobar is a customer data platform (CDP) that combines both online and offline data. With the help of an in-built marketing automation integration and a wide array of add-ons, Custobar enables multi-channel campaigns that are highly customer-specific and can be created on the spot.

Custobar was founded in 2012 and is based in Helsinki. Its unique sales and marketing platform is already in use in well over 100 major retail and ecommerce customers across Europe and the US.

HELSINKI HQ	**BERLIN**	**BELGIUM**	**AMSTERDAM**	**ZURICH**
Konepajankuja 1	Max-Beer-Straße 15	Wilgenlaan 2	Utrechtsedwarsstraat 13 III	Chappelistrasse 1
00510 Helsinki	10119 Berlin	9200 Dendermonde	1017WB Amsterdam	CH-8604 Volketswil
Finland	Germany	Belgium	Netherlands	Switzerland
+358 50 365 13 05	+358 50 365 13 05	+32 473 894 898	+32 473 894 898	+358 50 365 13 05

Countless companies have significantly increased their profits, repurchase rates and conversion rates with the help of an RFM analysis. You can too! Custobar will even do the math behind all those RFM values and scores for you.

Please visit:
WWW.CUSTOBAR.COM

Tatu Kuivalahti

CEO Custobar

Custobar

Thank you!